

FISCAL NOTE

Bill #: SB520

Title: Streamline and simplify local government and school funding

Primary

Sponsor: Mack Cole

Status: As Introduced

Sponsor signature	Date	Dave Lewis, Budget Director	Date
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Fiscal Summary

	<u>FY2000 Difference</u>	<u>FY2001 Difference</u>
Expenditures:		
General Fund	\$42,009,000	\$368,706,000
Revenue:		
General Fund		\$(32,897,000)
Net Impact on General Fund Balance:	\$(42,009,000)	\$(401,603,000)

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. SB520 is a part of the Department of Revenue comprehensive tax reform proposal, which includes SB516, SB517, SB518, SB519, SB520, and SB523.

Motor Vehicles

2. This proposal repeals the new car sales tax provided for in MCA, 61-3-502.
3. The proposal also repeals the current law motor vehicle licensing and registration fees, weed control fee, junk vehicle disposal fee, and county computer system fee.
4. This bill would reduce the property tax on light cars and trucks from 2% to 1% of taxable value.
5. The revenue from nearly all of the remaining vehicle fees would be deposited in the county motor vehicle suspense fund as defined in New Section 79 of this bill. The bill also changes the current law distribution of revenue from the county motor vehicle suspense fund by requiring that the distribution be limited to

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county governments, cities and towns, and the countywide retirement and transportation accounts in proportion to the mills levied for each.

6. These changes result in a total reduction in revenue from motor vehicles of \$73,305,000 in fiscal 2001. Of this amount, revenues to the state general fund would be *reduced* \$32,897,000; revenues to the university account would be *reduced* \$2,159,000; revenues to the 9-mill state assumption of welfare account would be *reduced* \$1,286,000; revenues to state agencies would be *reduced* \$15,279,000; revenues to schools would be *reduced* \$32,152,000; and revenues to local governments, including the countywide retirement and transportation accounts, would be *increased* \$10,468,000.

School Funding

7. This proposal provides for block grants to school districts for the bus depreciation fund, tuition fund, adult education fund, building reserve fund, transportation fund, and nonoperating fund. The block grants are based on the difference between the amount of non-levy revenue and property tax received by these funds in fiscal 1998, and the amount of revenue that a school district would have received for fiscal year 1998 if the entire comprehensive tax reform proposal had been in effect.
8. The proposal provides that the state will pay the base budget of schools, including special education allowable cost payments.
9. The proposal increases the basic levy for elementary education from 33 to 57 mills; and the basic levy for high schools from 22 to 38 mills (see Technical Notes).
10. The proposal provides for a new source of funding for school district over-base budgets in the form of "over-base state aid".
11. The net impact of these school funding provisions is to increase state general fund expenditures on schools by \$18,406,000 in fiscal 2000, and by \$244,523,000 in fiscal year 2001.

Local Governments

12. The bill provides for reimbursements to local governments. The reimbursement for fiscal 2000 is based on the difference between the amount of revenue that local governments actually received in fiscal 1998 from HB20 and SB417 reimbursements; total property taxes levied (excluding the 101 mills levied for state and university purposes; and oil and gas production taxes; and the amount of revenue that local governments would have received in fiscal 1998 if the comprehensive tax reform proposal had been in effect. A similar reimbursement for fiscal year 2001 is based on the same calculations for fiscal 1999.
13. The above reimbursement scheme results in total state general fund reimbursements to local governments of \$22,411,000 in fiscal 2000, and \$97,948,000 in fiscal 2001.

Other Reallocations and Reimbursements

14. The proposal simplifies funding for local governments and certain state agencies, by reallocating the revenue from a wide variety of motor vehicle fees to the county motor vehicle suspense fund, for subsequent distribution based on relative mill levies. This reallocation removes motor vehicle funding from several state agencies. This funding decrease would be offset through state general fund appropriations. These appropriations will increase state general fund expenditures by \$15,279,000 in fiscal 2001.
15. Property tax and other provisions of the comprehensive reform proposal reduce property and other taxes currently flowing to the 6-mill university account and the 9-mill assumption of welfare accounts for state government. State general fund expenditures will be increased \$192,000 in fiscal 2000, and \$10,956,000 in fiscal 2001, to offset these reductions in revenue.

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Administrative expenses – Department of Justice

16. It will be necessary to contract for programming with an outside vendor since department programming staff are committed to completing the current backlog of more than 9,000 hours of programming necessary to comply with 1997 legislative changes, Y2K, and various other programs. One-time expenses for programming changes required by the passage of this bill are projected to cost \$13,200 for consultant services plus \$4,166 for increased computer processing charges generated during programming and system testing, or a total of \$17,366 during FY 2000.
 $(176 \text{ hours} \times \$75.00/\text{hour} = \$13,200 + \$4,166 = \$17,366)$

Combined Impact

17. While SB520 eliminates the new car sales tax the substantial related fiscal impact is shown in the fiscal note for SB520 which is a part of the Department of Revenue tax comprehensive tax reform proposal and also makes these changes. These fiscal impacts are not shown on this note.
18. The combined impact on the state general fund of the comprehensive tax reform provisions contained in SB520 are as follows:

	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>
Motor Vehicle Changes	\$ 0	\$(32,897,000)
School Funding Changes	(18,406,000)	(244,523,000)
Loc. Govt. Reimbursements	(23,411,000)	(97,948,000)
Other Reimbursements	<u>(192,000)</u>	<u>(26,235,000)</u>
Total Impact	\$(42,009,000)	\$(401,603,000)

19. Administrative impacts of the comprehensive tax reform proposal are included in the fiscal notes for SB516, SB517, SB518, and SB519.

<u>FISCAL IMPACT:</u>	<u>FY2000</u>	<u>FY2001</u>
	<u>Difference</u>	<u>Difference</u>
<u>Expenditures:</u>		
Operating Expenses – Dept of Justice	17,366	
Transfers	<u>42,009,000</u>	<u>368,706,000</u>
TOTAL	\$42,026,366	\$368,706,000
<u>Funding:</u>		
General Fund (01)	\$42,026,366	\$368,706,000
<u>Revenues:</u>		
General Fund (01)	\$0	(\$32,897,000)
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	(\$42,026,366)	(\$401,603,000)

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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The reimbursement provisions of the proposal are intended to maintain current law funding levels for all local governments and schools.

TECHNICAL NOTES:

- 1) There are several technical problems with the bill as drafted that would have to be corrected to comport with the intent of the comprehensive tax reform proposal. Examples include: 1) the bill increases the current mandatory county mill levies for school equalization from 55 to 95, but does not provide for an offsetting elimination of the current 40 mills levied at the state level in order to maintain the total mills levied for equalization at 95 mills; 2) the applicability dates indicate that the act applies generally to payments and distribution occurring on or after July 1, 2001, but they should apply on or after July 1, 2000; and 3) there is no applicable date associated with repealing the current law motor vehicle fees being repealed in the bill.